



# Intelligence Report

Office of Asian Pacific and Latin American Analysis

22 July 1997

## Indonesia: Instability Indicators

*Widespread clashes between political opponents and authorities during the recent parliamentary election campaign, though not regime threatening, highlighted public grievances and the government's unwillingness to redress them. The economy continued to perform strongly--with GDP still projected to grow by 7 to 8 percent annually--but there is mounting concern about "policy drift" within the Indonesian Government, especially in the area of deregulation.*

### Political Developments

The landslide victory by Golkar, the ruling party, in government-orchestrated parliamentary elections on 29 May did not enhance the legitimacy of President Soeharto or his government:

- [redacted] violence that attended the campaign--the worst in three decades--and plausible postelection charges of vote fraud as signs of significant public alienation.
- Jakarta did not use the campaign to address longstanding ethnic, religious, separatist, and economic tensions. Additional venting of public frustration is likely in the runup to Soeharto's expected pro forma appointment to a seventh term next year by the 1,000-person People's Consultative Assembly. [redacted]

Regime critics, however, lack the cohesion and leadership necessary to challenge the government. Press [redacted] reports indicate the President retains the support of the military. Soeharto's publicly expressed satisfaction with the election results and dismissive comments toward his opponents indicate he is unlikely to respond with more than gestures to their concerns. [redacted]

This memorandum was prepared by the [redacted] Office of Asian Pacific and Latin American Analysis. Comments and queries are welcome and may be directed to [redacted]

APLA 97-40506

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### **Economic Developments**

Indonesian currency and equity markets rebounded solidly following the turbulent election period--a strong indication of the business community's unwavering confidence over near-term economic prospects. Economic fundamentals remain strong and second-quarter macroeconomic data indicate buoyant growth and moderating inflation. The health of the domestic economy continues to underpin the support the government enjoys from most organized interests. [REDACTED]

Nonoil exports, however, registered only a sluggish 3-percent gain on an annual basis, and analysts remain divided over whether the shortfall represents a cyclical problem or a more serious structural deficiency in economic competitiveness. Questions are also being raised about what appears to be complacency among senior officials on the need to move ahead with much needed restructuring of the country's financial and industrial sectors. [REDACTED]

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